Emergency roadside assistance
services are expected to generate
nearly 2.9 billion in
annual service revenue

#### **Building the Future**

9.1-1 systems were originally designed in the 1970s to support telephones from a fixed les ation. Calls were delivered and information provided based on a regional or front 9.1.1 system of mapping and call voniting. Today, two technologies are introduced that allow mobility; bisness are no longer fixed. These technologies in which wireless phones, relevants desired in automobilities, and 4P triephone. Many peculie public safety rapidity but require a nationwide 9.1-1 system. Remaing calls from such choices to the according to prior responsible for hardling the emergency and delivering the call through the 9.1-1 recoverie powered applicant challenges that had not been addressed from a national density.

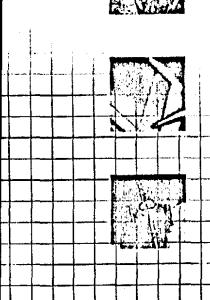
SCC recently announced the horneh of a revolutionary technology solution for whelest rarriers and other neminalitisms the becommunications write pervisies. This new service initiative is the flest step rowned, indirecting the chafferages had benfactions of the mattern aging 9:1.1 system. This offering will provide the ability to properly raite and deliver 9.1.1 calls and data throughout the United States. The existing 9.1.1 system that was deployed in local and regional segments in a configuration that welversly limits the ability to efficiently tenrifer calls institle those branchetes. With the increasing meditity of 9.1.1 callses, this capability is resembled on a systemal wale.

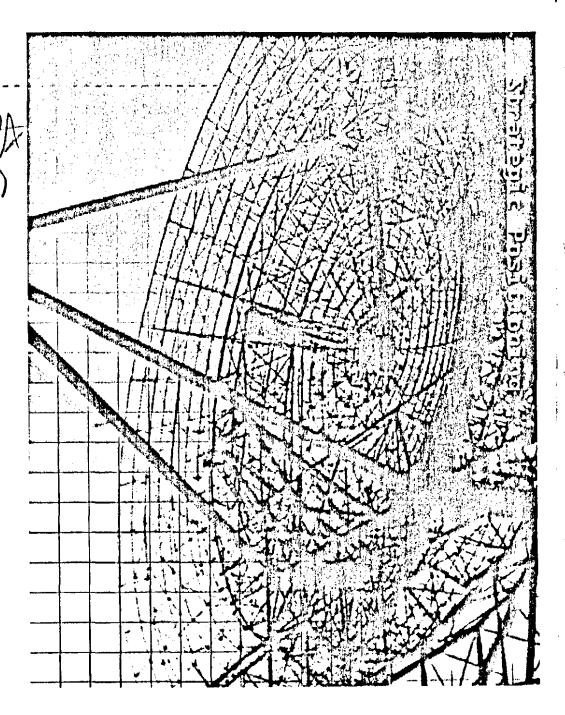
This initiative, 9.4-1 SafetyNet<sup>ac</sup>, will process thracounts of historizary syntains and new arthress cally. It is designed to easily integrate with the existing 9.4-1 systems and is capable of providing high-speed delivery of water and data ingelier with nationalic call making informations without human intervention. 9.4-1 SafetyNet<sup>ac</sup> was created to meet inday's call volumes and network combetiliers.

9.1-1 SafetyNet will provide a method for a rehematics provide to accurately and automatically different accurate source source for energency services for a stranded nactories, whether the toutosts to be Almaquerque or Orbardo, Many technologies with that can therembe the cases to location in 9.1-1 rails, but they all need services like SCC's 9.1-1 SafetyNet to determine the time that the strand and almost a better that the services in the SCC's 9.1-1 SafetyNet to determine the proper matting of the call and to to deliver the call and data through the 9.1-1 network in wavenum, unit inhosts. 9.1-1 SafetyNet warts not the confinition of overlapping and -multi-furtheriterious lineators.

As our society becomes more tradific and the volume of nontraditional subscritions termann, the need for a reliable, state-oftim-art method for providing emergency services will become mobe critical, SCCs 9-1-1 SafetyNet is a service designed to most this basel for the most generation in service.







#### Selected Financial Data

The following selected fluencial data are qualified by reference to and should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Fluencial Constitutes and Results of Operations Included Interior The statement of Operations data for the power ceded December 31, 1999, 1998 and 1997 and the Jalance sheet data or December 31, 1999 and 1998 are derived from, and are qualified by reference to, the audited fluencial statements and outes included inercia. The statement of Operations data for the years caded December 31, 1996 and 1995 and the Industry sheet data at December 31, 1997. 1996 and 1995 and the Industry sheet data at December 31, 1997.

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(dollars in thousands, precent per share data)	1111	1774	-1997	<b>.}</b> ]16.,,,	. 1115	energy and control of
				100	$M_{\rm LOP}$	
Automy with the life of the		6 4.	ing and a second			
Revenue	\$ 32,096	1 30 610	\$ 24,005	\$ 13,105	S 3.531	
Designation of services	488	1 839	1.067	1.637	1.682	
Accuses and intelegrenation services and in the services			10.04			
Titud paymum	32.584	34.449	27,072	14.605	7.413	ច្រូវ ខេត្ត 🖁
Costs and expenses:	24,338	20.740	15,374	1,906	2.840	
Cost of chits to a tentral contract and the contract of the co	138			596	1.041	
Cons of themses and implementation survices	. ,	830	1.283		-3,5	
Sales and marketing the last the second of the last	5,314	4,119	3,850	3,204	2.016	), i i i i i i i i i i i i i i i i i i i
Column and which the land and t	.: 4,931	4.050	3.721	22 1.533	S 830 L	1
Tout more and opposite hand a kindle with a limited	34.721	2 30.654 .	5 · 23.734 ·	. 13.374	6.727	
fricanu (loss) frum operations	(2,137)	3,795	3,334	1.473	660	
Caber Income formulated, just 2 3 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	607	(294)	~(e79)	(1. (527)	(3Ud) ·	. Na i
Engana (loss) from constitutes operations before become sume?	(1.530)	J.50J	2.155	His	3)8	
Pandelon & will for locome susmission in the control of the	(460)	e i caron	(2.326)	ند 🕽 🚅 د	1	
Met became be and from constraining specialisms		4			\$ 80.55° k	
Rejore since ignera justa	(1,062)	3.880	4.783	937	302	
Loss from operations of discontinued districts, net of tan	(224)	-	(\$76)	(562)	(1,746)	100
Log from despend of decembrary division, not of the	,. , <del></del> }	<u> </u>	(2.032)	. Šiau 📆	a artic	
No themse (less) before autopostioning them	(1,288)	2 3,860	1.875	375	(1,444)	
Lon from anti-national through an data- nat of the	- 1997 <del></del>	(909).			رد 12 ساله د	
Net because (buse)	\$ (1,284)	1.2.071	1.175	S. 375	. SLI.444).	***
ন্ত্ৰিত প্ৰিচ ক্ৰিয়ে ক্ৰমেন্ত্ৰিক কৰিব কৰিব কৰিব			g Att	57	1	3
例如 计图 的现在分词 地名美国巴斯奇拉曼				1		
New Incomes (hom) from continuing operations			",	1. 1. 1.		
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Market and the second s					,	
The second secon	# (4,14)	in it in Note in		Promitted Land	D IN HEL	
Net the same (loss) pay there:	S (6.12)	e #130	. S. 061	s (0.17)	* (1 H2) *	
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الكه عبد الأوضوات عن المسكود عيدة والمسلمات اللك المسلمان المناور عن الرابط الله المسلمان الركارات. 20 م الركان المراور المسلمان المسلمات الكران المسلمان المسلمان المراور المسلمان المسلمان المسلمان المسلمان الم	4 (4-1-1)	kata Verta		e. www	A HIAIT	
Arriver a characteristics of the second		i .				
Carls mad couls requirements	8 8,354	\$ 10,266	\$ 2.503	\$ 32	\$ 1,004	1
Story and long-term investments in marketable securities	13,158	9.815		3 3		1.44
Westurn capital (defaul)	18.014	17.678	(2.670)	(7,345)	(8.135)	,
Tions musts	41.780	45,095	21,106	18,482	11.755	
	2,038	2.791	6,891	3.31B	1,934	- 1
Lung-ten in delat	32,935	33,591	(11.867)		(4.614)	
Total mockinshines equity (dulicit)	32.333	33,331	(11.807)	(13,068)	(4.014)	

See Note 2 of Notes to Financial Statements for an explanation of the determination of the states used in computing net totaine (tox) per share.

#### Management's Discussion and Analysis of Financial Condition and Results of Operations

This Animal Repair occurains forward-looking materiaents that involve risks and intertuintes. Our actual resists may differ instituting in the resists distinsies in the forward-looking statespents. Factors that implications with a difference include, to act at institute (6, 6) beingly solve cycles associated wide our services and petuloitis, (2) our relative to large contracts from a function mainter of aguilloint continues, (3) rate of adoption of 9-1 rectainly by whethers carriers, (4) continuing rapid shange in the telecompositionism industry that may affect us and our constituters, (5) constituting derivand for our services and products, and (6) additional factors described becamber (3), 1999.

#### Overview

Prior to 1995, indistantially all of our revenue was derived from size and of activant literane, and related implementation netwides in LLCs and public selecty agenties. During 1994, we being nimesting in infrastructure to provide our 9-1-1 OSS<sup>20</sup> solution, to elegations operating enterprises seeking to outcome operating enterprises. We signed our first 9-1-1 than management services contract in August 1994 and continue to with 10 the number of records proder immageness. We began to necessarie revenue from whether sometimes in the white quanter of 1997, and constitute to service the number of the unfector about the number of the wateries subscribers instanged. In addition, we signed a construct whith the General Services. Commission of the Scare of Erans in November 1998, representing the first lines that a train agency has endowned to equivalent 9-1-1 OSS and data management services with a neutral state party.

Our data annuagement services revenue is derived from contracts with ILECs, CLECs, whether carriers and a state agency juniousis to which we provide an outsinicing solution for our customers 9-1-1 data management, prevenue included in this management review posesally includes a mon-recurring for for the dealers and Implementation of the 9-1-1 OSS. conversion of the customer's data to our systems, further and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are reconstant on the percentage of completion method over the period required to perform the tasks necessary to prepare for the processing of continuer thats. Our contracts also separately allow for a mountily service for based on the monder of salactifier recards under management, which is recognized in the period In which the services are rendered. Data management services revenue also may be hade revenue from enhanced products and services, which may be jude non-recurring ancion monthly fees which are reparately stated in the constact and are recognized in the period in which the services are performed. Related costs are expensed as they are incurred. Data management service revenue computed 99% of our total revenue in 1999 and 89% in each of the years unded December 31, 1998 and 1997.

Our licenses and implementation services revenue is detivate from contracts with IEEE parasance to which we provide a 9-14 solution leave to the IEEE parasance to which we provide a 9-14 solution leave the term of partial products and services such as implementation, training, solwant embast ements and interface to tax trustomers' systems. Increase and implementation services revenue is recognized using the percentage of completion mention. The related coars include third party licenses, direct show and related expertises, and one expertised as the other.

Subsequent to system furnishman, we provide our trainments with maturemance services that we tre-optical standily over the related contract period on a straight line depts. Our forement and implementation services never be derived from a limited number of customers and consequently the concentration of trainments.

tioning of the signing of cow constructs and completion of entisting constructs. Magilia on such constructs also may Buctimet based on the elements included in the construct. We completed the Broques and implementation services constructs we had in place in 1998 and did not sign additional constructs due to use focus on our based term services constacts. We do not expect to generate significant revenue from Bernica and implementation services during 2000. Lee need and implementation services during 2000. The enter and implementation services during 2000. The enter and trustension revenue to 1999 and 11% in each of the years ented December 31, 1998 and 1997.

During the year couled December 31, 1999, we recognized expressionary 317 to 0 total reverses from Americant, Indianals, and U.S. WEST, each of which accounted for greater than 10% of our total reverse. During the year ended December 31, 1998, we recognized approximately 73% of food revenue from American, BellSouth line, and U.S. WEST, each of which accounted for greater than 10% of our total reverse. During the year ended December 31, 1997, we recognized approximately 81% of total reverse from continuing operations from American, BellSouth line, and U.S. WEST, each of which accounted for greater than 10% of our total reverse.

In the chied quarter of 1998, one of our faceness and implementation services consoners. Bell Arlantic, who had needing with Nysea, monocopied their decidant to standardize their 9-1-1 handware and software platform unlifteling non-SCC systems that had been used by Nysea priors in the aurger. In the fourth quarter of 1998, we entered hat a Ternishation, Scatteness and Release Agreement with Bell Arlantic, under which Bell Arlantic paid us for work that had been performed prior to concellation of the contract. This transition occurred over the course of 1999, during which time we constituted to support the systems fundacted to Bell Arlantic and compraind hally to ensure a smooth transition of these systems forms. Bell Arlantic with the contraction of these systems.

As of December 31, 1999, we had not operating loss carry forwards of \$11.2 million available to offset future met Incom for U.S. faderal Income has purposes. We reversed \$1.7 million of the valuation allowance on our deferred our assets in the year ended December 31, 1998 and recorded an additional income tax benefit of \$468,000 from constinuing operations in the year ended December 31, 1999, as we talkeve that it is made likely than out that unit ian benefits will be realized. Of the \$912,000 tax benefit recorded in 1998, \$533,000 related to the extraordizary has from early extinguishment of debt. We expect to bein loses in the sear term related to development costs for new consumercial products and future taxable his onse may not the willingers are realize achievement deferred that assets that will be created by the projected her operating losses. Consequently, we presently expect our Materiality of Operations will not reflect (an benefits for projected operating losses to be tocurred during 2000.

In June 1997, we sold the net assets of our Premise Products Division. The sake of our Premise Products Division resided in a net loss from the sake of \$2.0 million. Net base from operations of this division totaled \$876,000 and \$226,000 to 1997 and 1999, expectively, and are precented in our financial statements as loss from operations of this outlined division. The loss from discontinued operations in 1999 (control division final closeout of managed characters and the transition of customers to the company disc sequincial shirt division.

In four and July 1998, we completed an initial public offering of our common stock, which generated proceeds of \$20.0 million, not of the moderniters the ount and other offering costs and including the exercise of the condensations over allourness option. See Name 2 to the accompanying financial

#### statements and "Liquidity and Capital Resources."

Historically, substantially all of our revenue has been generated from sales to outcomers in the United States. However, we have generated evenues in Causala and internit on eater additional international markets, which may require significant management attention and financial resources. International sales are subject to a watery of risks.

Our quarterly and annual operating results have varied algolith with its past. The variation in operating results will titlely continue and may buenuity. We believe that period to period comparisons of results of operations are not recessarily membeglish and should not be relied upon as indications of future performance. Our operation results may continue to fluctuate as a result of many factors, including the length of the sales Cycles for new or entiting continuers, the size, timing or december of significant costoner contexts. Nuclearious in number of subscriber records under management, timing or distraction of service offertures, rate of admission of wheless service by Public Safety Asswering Polices, efforts expended to accelerate the introduction of certain new products, our shilling to live, train and retain qualified personnel, incremed competition, flyoges in operating expanses, changes in our strategy, the flow chil performance of our communers, changes to teleccommunications legislation and regulations that may affect the competitive environment for our services, and general ocunomic factors. Our contracts for 9-1-1 OSS services noncrally leadeds a secondar most recognize for for the design and laughtmentation of the 9-1-1 OSS, conversion of the customer's date to our systems, history and training of prescripted, and other com required to prepare for the processing of contours then, and therefore, we may recognize significantly increased pey-mafor a short period of time upon communicacy services for a

Our expense levels are based to significant part on our expectations regarding future revenue. Our revenue is difficult to forecast because the market for our services is evolving tapibily and the length of our sales cycle, the size and timing of adjusticant concents contracts and license fort and the timing of recognition of non-reconfling initial feet wary substantially senong customers. Accordingly, we may be unable to adjust spending to a timely manner to compensate for any unexpected shouldall by resense. Any significant abortful could therefore have a material adverse effect on our business, financial consistent and results of operations. We will finur expenses of approximately \$10 intilition in 2000 for research, development and marketing to expand our product offerings. In addition, an bleed additional employees to 1999, 1998 and 1997, and expect to continue hiring additional employees during 2000. We also began learing office space in Texas in December 1999, from while it we will perform some of our postarious. We cannot assure you that we can report operating profits or that our investments in research and development will generate future revenue. Fallute to do so could have a material adverse effect on our leasures, linearial condition and results of operations.

Results of Operations
Year Ended December 31, 1999 Compared to Year Ended
December 31, 1998

#### Revenue

Third Revenue, Total revenue decreased 5%, from \$34.4 million in 1998 to \$32.6 million in 1999.

Data Management Service Revenue, Revenue from data management service increased 50s, from \$30 6 million in 1998 to \$32 3 million in 1998, concentrate quantimised g 89% and 99% of total revenue, respectively. Data management nervices revenue increased increased in the total revenue, and in increase to the monitor of records made transported for IRC and CECC conformer, caused by

customer growth and the signing of additional CLEC contracts.
These interacts were collect by manufally minimum fees from a wireless carrier in 1998 that explicit after earl of 1988 and a decrease in sour-recursing fees related to whereas and whichless early tion.

Electrons and Implementation Services. Revenue from these and Implementation services detenance 87%, from \$3.8 million in 1998 to \$488,000 in 1999, as we had no literates and implementation services contracts in process in 1999 other than warranty contracts.

#### Costs and Expenses

Cost of Data Management Services. Cost of their management pervices consists primarily of labor and costs of interconnections with customers' systems and our tolerativeness. Cast of data management within to reven 17%, from \$20.7 million to 1998 to \$24.3 million in 1999, representing 60% and 75% of testal revenue, respectively, and 68% and 76% of data Managestical Services revenue, respectively. The stulia discrease was that to the pike phase and start of houseness about of our constant with the State of Texas, bitreased depreciation expense and telephane fines to accommunities growth to our wireless and Wireline approximate, and additional language and related costs harmed to accommende growth for last, whelve and wheles services. The percentage increase occurred primarily because the milions of our works, and enhanced wroters has been desired than made landed, additionals we have findly the telephones were to write a the makingular demand, and the hallastructure required to begin the State of Texas constant before similaring revenue was personal de adelition, in 1998, we received countries anisatonomy for from a works customer which cantom at the cost of 1998.

Cost of Licenses and Implementation Services. Cost of literates and Implementation services consists primarily foliate, Borrow Few for third party software and related expresses. Cost of literates and limplementation services decreased 83%, from 836,000 in 1994 to \$139,000 in 1994, representing 2% and 0.4% of total revenue, respectively, and 22% and 20% of literates and implementation services revenue, respectively, and form the literates and implementation services revenue, respectively. The dollar decrease occurred because we had no literates and implementation services tourisates in process during and implementation services contracts in process during 1999 other stom warranty contracts.

Salm and Marketing. Sales and marketing expenses consist prinority of expenses related to salaries and continuouslins, crawly trade shows and sales collaborate. Sales and marketing expenses to research (29%, from \$4.4 million in 1998 to \$5.3 million in 1999, representing 12% and 16% of rocal revenue, respectively. The dalate increase was due to the addition of marketing personnel, the creation of a government after the present interface legislation primarily related to our wheters operations and related legal expenses, addition of sales staff for enhanced services and an increase in tradistions of sales staff for enhanced services and an increase in tradistions of sales staff for enhanced services and an increase in tradistions expenses.

General and Administrative. General and administrative expenses consist polinicity of expenses related to use following systems, fluories, human resources, legal, executive and fluoridad plunning departments. General and administrative expenses decreased 1%, from 55 0 million in 1998 to 54.9 million in 1999, representing 44% and 15% of otal resence, respectively. We experienced decreases that the a decrease in expenses related to the resignations of our chief operating officer and chief fluoriest of other. These decreases were partially officer and chief fluoriest officer. These decreases were partially officer.

- the addition of information technology personnel and related expenses;
- Increased legal and accounting costs related to quarterly and autust reporting requirements as we became a publicly traded company to June 1998.

- tix reased legal scaling and other feet related to regulatory and legislative bases concerning the implementation of our services in Texas; and
- \* the creation of an investor relations department

Other Income (Expense), Net. Net other income (expense) consists primarily of interest expense from our borrowings and leases for explicit equipment, offset by forterest income earned on our cash and investment bulances. Net other expense was \$294.000 in 1998 compared to net other income of \$607.000 in 1999, representing (1)% and 2% of otal revenue for such periods, respectively. The dollar increase in net other thomas was poliminarly due to a decrease in interest especie evided to the repayment of certain bonk debt containing through the second quarter of 1998 and repayment of certain capital leases said an increase in Interest excued from the free-time capital leases said an increase in Interest excued from the free-time of family or 1998.

Benefit for License Tiene. Our incurse tax benefit from continuing operations increased from \$779,000 in 1998 to \$468,000 in 1999. In 1998, we reversed a portion of our valuation altowards and in 1999 re-unded as incomp tax benefit related to our deformed tax assets at the thefice that if it more thirty than not that the tax assets will be realized.

Loss from Operations of Discontinued Division. We recorded a change of \$226,000 in 1999, net of the related to the flust closeous of unsuspined contracts and the transition of customers to the company this sequence of this division.

Last from Early Entinguishment of Dubt. We recorded a charge of \$009,000 in 1998, not of the related has benefit, related to the write oil of the renisting debt discount and other costs associated with the early extinguishment of our bank delta.

Year Ended December 31, 1998 Compared to Year Ended Occupies 31, 1997

#### Revenue

Total Revenue, Total revenue incremed 27%, from \$27.1 million in 1997 to \$34.4 million to 1998

Data Management Survium Revenue. Revenue from data management services increased 28%, from \$24.0 million in 1997 to \$30.6 million in 1998, representing approximately 80% of total revenue in both periods. The increase resulted patimatily from increases in:

- monthly feet from wireline customers due to an increase in the number of subscribers under management;
- more recording and monthly fees from wheless customers, as we did not begin to earn revenue from wheless customers until the third quarter of 1997 and signed several new contracts in 1998;
- \* non-recurring less from enhanced services; and
- non-recenting fees from new witeline customers that were consistened to our systems.

Licenses and Implementation Services, Revenue from Recesses and Implementation services increased 25%, from \$3.1 million in 1997 to \$3.8 million in 1998, due to increased wink performed on contracts that begin in 1997 and were completed in terminated during 1998.

## Costs and Expenses

Cost of Data Management Services, Cost of data management services to reased 35%, from \$15.4 million to 1997 to \$20.7 million in 1998, representing \$7% and 60% of total revenue, repetitively, and 64% and 66% of date management services revenue, respectively. The dollar increase was due to the addition of persunnel and equipment and expansion of facilities to accommodate growth in our wireless and wireline operations. =

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Cost of Lieuwess and Implementation Services. Cost of licenses and implementation review decreased 35%, from \$1.3 million in 1997 to \$836,000 in 1998, representing \$56 and 2% of total revenue, respectively, and 42% and 22% of licenses and implementation services revenue, respectively. The decrease in dollars and as a percent of licenses and implementation services to the man and implementation services revenue was primarily due to the revenue of accrued third party software fees that will not be required and an inscrase in warning revenue, tools of which resided from the caracthoston of our contract with Bett Attention.

Sales and Macheting. Sales and marketing expenses increased 7%, from \$3.9 million in 1997 to \$4.1 million in 1998, representing 14% and 12% of rotal revenue, respectively. The increme was primarily due to solutes and related costs of fairing additional sales and marketing presument during 1998 and public relations costs incremed in 1998. These increases were partially offset by decreases in sales commissions, as well as the transfer of a vice president to a general and administrative position.

General and Administrative. General and administrative expenses increased 54%, from \$3.2 million in 1997 to \$5.0 million in 1998, representing 12% and 14% of total revenue, respectively. The dollar increase was due to:

- the reasignment of certain continuing resources, infrastructure and related general and administrative expenses applicable to continuing operations;
- addition of personnel and computer equipment in the accounting, information systems, legal and human resources departments to support our growth;
- the transfer of a marketing vice president to a general and administrative position; and
- strategic consulting costs incurred in 1998.

The incremes were partially offset by a decrease in enecutive formers.

Other Expenses, Not. Other expenses decreased 67%, foun \$879.000 in 1997 to \$294.000 in 1998, representing 3% and 1% of total revenue, respectively. The dollar decrease was primerly due to the repayment of certain bank debt and capital lesses during 1998 and interest earned from the investment of kinds from our mittal public adlering to lune and those of 1908.

Discuss Tax Benefit. The income tax benefit of \$379,000 in 1998 consists of the reversal of a purious of our valuation allowance on our deferred cas assets, compared to a reversal of valuation allowance of \$2.4 million in 1997. We did not record a stare income tax provision in 1998 pulmonly due to the utilization of state net operating loss carry forwards. In 1997, we recorded a state provision of \$172,000 as more lossiness was conducted in states where net operating loss carryforwards were not available.

Loss from Sale and Operations of Discontinued Division. In 1997, we recorded a charge of \$2.9 million, not of the related tax effect, related to the sale of the net assets of our Pirmise Products Division.

Loss from Early Estinguishment of Debt. We recorded a charge of \$309,000 in 1998, not of the related tax benefit, related to the write oil of the remaining dish discount and other courts associated with the early entinguishment of our bank debt.

outstanding on the line of credit.
We also have a \$2.0 million capital lease line with a bank which is available to meet capital sequitition needs that acts from normal business operations. The interest rate on capital leased under the lease fitte is equal to the bank's cost of funds at the time of sent lease. Separate lease schedules are signed from time to time. Each lease schedules are signed from time to time. Each lease schedule is collateratized by the assess that are being leased. Each lease has its own termination date, spitzally 36 months. As of December 31, 1999, \$582,000 was

Liber tale plus 2.25% per annum. The line of credit

manures April 15, 2000 and is collateralised by certain of

our assets. As of December 31, 1999, no borrowings were

outstanding on the capital base line.

We have associated plans to inter research, development and marketting expenses of approximately \$10 million to expand pur product offerings. This will require approximately \$13 million to costs due to the rapital expenditure requirements. We may also increase our capital lesse time to fluence this initiative. We believe that our remaining net proceeds from our initial public offering, costs generated from operations and leave financing will be sufficient to fund our miticipated working capital meets, research and development initiative, capital expenditures and any potential foliant acquisitions through at least the sext twelve mounts. In the event out plans or examptions thange in prove to be lessociation, or if we considerate any amplicated acquisitions of businesses or assets, we may be peopled to seek additional sources of capital. Sources of additional capital may include positic and private equity and delat financings, sales of torottalegic assets and other falsoning arrangements.

Year 2000 Capability

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Many covereity trotallest computer and software printiests were coded to accept unity two digit ritides in the date code field. These date code fields need to accept four digit enules to distinguish twenty-first century dates from twentierly century dates. We use off-the-shelf and custom software

developed internally and by third parties for our production, Information technology (17) and non-17 systems We programmed and tested our systems and installed all opgrades necessary to make them Year 2000 compilant. We specif along \$400,000 to make our systems Year 2000 compilant. As a result of our Year 2000 readiness offens, our production systems, IT systems and man IT systems successfully distinguished twenty-first century dates from twentieth century dates on Lanuary 1, 2000 without any system failures. However, we are continuing to monitor our Systems throughout the year 2000 to ensure that may farent Year 2000 moneys that may arise are addressed promptly. Despite the fact that many companies' software and companies systems are currently processing twenty first Dennary dates correctly, these companies, including us, could experience latera Year 2000 problems

Recently Issued Accounting Pronouncements Statement of Financial Accounting Standards No. 133 and No. 137

In lase 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Floancial Accounting Standards No. 133. Accompling for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as Other hedging activities. It requires an emity to recognize all derivatives as either assets to liabilities in the statement of figuricial publishes and measures those instruments at fair value. In June 1999, the FASB bound Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An Amendment of FASB Statement No. 133.\* SFAS No. 137 thelays the effective thate of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. We do not typically enter into arrangements that would full under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not agenticerally affect our financial condition and results of operations

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Scarement of Position 98-9. Modification of SOP 97-2, Software Revenue Recognition, With Respect to Centain Transactions," SOP 98-9 smends. certain persecutive of Statement of Position 97-2, "Software Revenue Recognition," to require the application of a residual traduct of accumuling for software revenue where certain contitions axist. SOP 98 9 also amends Scatement of Position 98-4, "Deferral of the Effective Date of a Provision. of SOP 97-2" so extend the deterral of the application of Kertain passages of SOP 97-2 provided by SOP 98-4 through Bacal years beginning on or before March 15, 1999. All other providens of SOP 98 9 are effective for transactions entered bito in tiscal years beginning after March 15, 1999. Eartler achipating is permitted, frowever, retroactive application is produtined. We believe SOP 98-9 will that materially larguest um firms let tracements

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Eachange Commission staff released Staff Accomming Butterin No. 101. "Receive Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of receive in thing ratio statement. SAB 101 must be applied to Human ratio statement. SAB 101 must be applied to Round the statements no later than the vector fitting quarter of 2000. We are currently reviewing SAB 101 in determine obtaining set in the stage of the statement of SAB 101 will have on unif fluoristic passion and results of operations.

Relance Chapter (4.8 m. tr. of	3 4 C	omber 3%:
holynes therets, feeding by thousands	F1 7 4377	
2008年 - 国际公司 日本市马科技技术 可以为解释的	多数数 金马	医含物学验
Christia work	44-M	<b>建设建设</b> 包括
Cosh pull cosh repulsalering	\$ 8,354	\$ 10.266
Short form investments by insubstable accurities	12,165	1,761
Accounts receivable, not of allowance of approximately \$58 and \$50 in 1999 and 16 respectively, for doubtful accounts	98. 2,255	4,820
Lintuited revenue	846	1.035
Proposits and college	548	484
Determit income team or general purifies	653	2.025
Total current ands	24.821	20.501
Property and management, at cost	A TOTAL CONTRACTOR	Lafasta Sanda Biffa Van
Composer hardware and equipment	25.411	23,687
Furtiline and theoret	ć 931	800
Leasehold improvements	915	920
· 11 17 (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)	27,259	25.407
Less - Accumulated depreciations	(15,753)	11 2 2 (11 USG)
Total property and madesons and a second sec	11,506	17 14 351
Other marks	80	15/05/35 21 1120
ung serne favosteneside les prochetable megaritique	<b>DO</b> 3	2,054
Defermed historice taken - programmen	3,423	1 1 504
Colinare development conts, and of accompliance	324 5	品得為所 名
mountmarker of \$575 and \$346 in 1999 and 1996, reportingly	951	083
	\$ 41.780.	245.003
5.4. 可其他的数据的形式 特別分析 可能的概要的 <b>把</b> 数	医的进行物	情報的說: ""
sandered)等在特殊的研究各個關係學院,是上於是於	夜間が出る。	Page Sale
Ciurent liabilitates	<u>.</u>	國際的時代
Accounts purable	\$ 752	3 2 1 2 211
Payent reluent accress:	780	्र भ
Chiper securcial (tob) Ultime	1.541	2,546
Property and color same	792	U96
Current portion of capital lase chilipstore (Note 5)	1.971	是 (2) (2) (2) (618)
Deferred conserved gegetting . The and the first the fir	865	11,908
Total customs Habilities	6,807	1 16 11 113
Long tero plata:		
Cupital from obligations, not of success portion (Note 5).	2,034	12.2. 2.791
Total Habitation	Ca 1 . 8.945	11.604
Commitments and continuencies (Notes 7 and 11)	统制 产品。	
Stockholdes' English (Note 4):	$s^{*}$ $i^{*}$ $i^{*}$ $i^{*}$	
Preferred street. \$.001 par value, 15,000,000 stores audiostant); suous borant or distablinding	<del>.</del>	
	in Aller	10
Common stack, \$.001 per value; 30.000,000 stures authorized; 11,104.111 and 10,000.353 states based at Disconder 31, 1990 and 1998, respectively	43,925	43,320
10,880,353 attains beared at Discussor 31, 1999 and 1998, respectively	(33	(59)
10,880,553 states based at December 31, 1999 and 1998, suspentively Additional paid in capital	(13) (10,96k	
10,880,353 strates braced of December 31, 1999 and 1998, empercisely Arbitrorial part in capital Strick rubber patrians receivable		
10.880.553 strares based at December 34, 1990 and 1998, inspectively Arbitrorial part in capital Strick subscriptions recrivable Accomplished deficit	(LO,96k	D.680

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r Statements of Operations, display in dissipants, every see structured a	¥*** }797	Ended Bocomber 31,			ಕ	Pa16-16	cription	r C	d Defici	kholders ficit)
Date thinsk shark minker	\$ 32,096	\$ 30,610 \$24,00\$			ä	1901	Subs 151e	ب خ	**	i i
Licenses and interespendition services characteristics and a large little and a large lit	32,584	3,007 34,449 27,072		Statements of Stockholders'	6	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	3 3	à	2	
Cost and expenses			당하 생물 기를	Equity (Deficit)		A 0 0 3 T.	Sto	į	53	4 9
Citic of data management services	24.338	20,740 15,378		febegins in finermept bricht bei spent e	-	San a San Cont	MALCO AN	51,000 (20 m)		PART COL
Cost of these are and topping an analysis survives	136 5.314	836 1 1.283 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		BALANCES, #			$I_{i}^{(m)} \in \mathbb{R}$ ,		(美国第27%)	潜作。[6]
Sales and marketing  Council and administrative	4.931	1.050 1.27 3.227	The state of the s	December 31, 1996	1,840,899	\$ 2 3 5 298	\$ (13)	(36,250) \$	(3) 1 (13.346) 1	1 (13,068)
The Texas costs and exercises a first of the second section sect	34,721	27-27 1 2 30.654 1.272-23.738		Dividends account on Sector D. E and F	14. 60%	Mark 18	67 美海	$(A(y,y), \lambda_y)^2$		i k
Income (loss) from operations	(2,137)	3.795		Conventible Professed Stock	, in	4-45 -	, , , or		(740)	J (740)
Cubus bucque (expense)		egig (And Terred)	ace 1 1500 1500 1500 1500 1500 1500 1500 1	Bosteline of street opetions,	Av nan	2年的第三年		100000	计多数电影	a di Karata
launcest and cellus Incompt	1,005	654		to enchange for motes received	153,382	· 📛 📅 154	(80)	· 解(1) 63		74.
between such stiller many and the second second second second	(484)	(940) (947)	Nad 2 Men in Adjust	Common nock warrant	44 B	14 14 1	<b>e</b> ( ); a.	1.14	<b>经过度</b> 化管	The Park
Thrown from tour tours and the constitutions of the constitution of the				put price cellustraent (Nota 1)	(1) (1) <del></del>	्रेन्स् <sup>(क्</sup> रेन्स		San Tale	m (0)	1-, (8)
before the cure town and national trans than	(1,530) (468)	3,501 2,455 (370) 2,326	- 4100	Nex treone	124	. Company is a series	عمرين سامي	المنت <b>30 منتقل ب</b> ن	س 871 است تد م	ار : 1.813 اسف
Benefit for testance more (Note fi). Net because (load from constanting operations	is. (tou)	http://down.comas.com/s/2010/92/2021 http://www. http://down.comas.com/s/2010/92/2021		BALANCES at December 31, 1907	1,994,281	2 452	the state of the		(3) (12.219)	(11,867)
before extraordinary from a constraint of the co	(1.062)	3.880 4.783	两门 经营销货	Dividends accrued on						in the
Discontinued operations (Note 3)	5.0	医水条节性 人名爱拉希兰		Series D. E and F Consporting		<b>是是"四种"</b>	3.3	医乳性多效 艾	i da ar	, and
Long from operation of discontinued division part of las	(226)	(876) - Core		Pretental Stock	1.5	Array of the			一 岩 (高) (355) [5	(355)
Loss from theretaed of discontinued durings not of his wife in a land		1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Lan Jan Sala	through Initial Public Offering						
Net because (love) before extraorderary them	(1,288)	1.475	唐 医横口切割	suct of because years of \$964	2,115,000	2 25.085	7 . " P.			25,987
East southway loss from early estinguisturiers	<u> </u>	(900) 22	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Conversion of preferred stock	1,	6 14.938	勃星星	Data 程式基		5.4.04
Was to come the box	\$ (1,284)	Rimin la réal (1944). Signético est La fina de la companya de la companya		face contained stack. Conversion of containing	6.188,575	34,030	400			3.14.944
Dividends accrued on Series D. E and F punchatority endenmable	. 4 (5)25-0	Emer Car There in the said of the		brugesteit en entannen	195.148	- 549		)		1,549
conjunctive personal story	· ·	(355) (740		Issues of common mode under			7.5	2000年1月1日	24年2月2月1日	使生物
Common work warnest and order atthoughout a decision of the state of	—	Kalipara massila ju		Entytoyee Stock Purchage Plan		243		深有事的		7. 1243
Max Income Danis southeat to an enganeer stack in the state of the sta	\$ (1,288)	\$ 2,139 \$ 1,127		Exercise of sunk opilions	88,194	39				340
Net tracaste (too) per store trans continuing operations				Common work vegrant part					an.	07)
Bute	£ (0.10)	4.0534.2.1		Stock interstedion						Constitution of the second
Disast	\$ (0.10)			payments received	, <b>14</b>	- <del>-</del> -	(10)			10
Net traction (loss) per strate before extraordinary trach (Note 2);				Tax benedic related to disqualifying discussion stock.			1.36			117
To Barton many and assessment of the control of the	\$ (6.12)	4.5		Returnment of trastary stark	(36,250)	` <u>"</u> "; '';		36.250		Og :: U
Diluted	\$ (0.12)	5 4.38 E 9.21	lane	Net Historie					2.97L	2.971
Nes incorne (loss) per usere (Note 2):				BALANCES, at			**************************************		1.35.46.3	1
Boste - and account to an about the second and a second	\$ (0.12)	L	L	December 31, 1908	JQ 886,353	10 43,320	(59)		(9,680) ·	33,591
Dibuted the Audio Addition of the Addition of	\$ (0.12)	ا 19.4 ـ المستعدد العالم المستعدد المتعدد	l	issuance of common						
Sharm used to computing not toronou (loss) per share (Non 2):				stock under Employee Stank : Porcluse Flan	38.670		•			
	0.989,001	6,430,564 1,957,413	·	Escretos of stock options	179,079	1 450	n in the second			46)
Mileton - Marine Line - Lead of the Carlot State of the Carlot Sta	0,8#9,091	<u>r 3</u>	harar I i i	Stock subscription		, , , , , ,	عد سور			
77				bolements terajage	-		. 26	3 · · · · ·	- 1	- 26
The accompanying Notes to Emancial Scorencers are an integral part of their	ie simements			Net kos	: <del></del>		i <del></del>		(1.288)	(1,248)
			i .	BALANCES, at Drammer 31, 1909	11.184	C15 CA1 026	\$ (33)		<b>.</b>	e 12 625
			ŧ.	PARTICIONES MAY LAND THE THEORY		\$11_\$40.925	6. 1991		***** \$ (10.094).	- 8 - MENTA -
			,	The accompanying Nous to Finan	atal Santana					

Martin Linibaria of participate and the state of the stat	1 ****	time through	7.42	Lagar Brabertalie	4.44.4.4
Cash flows from operating activities:			6 1 to 1		4
Net Jouanny Count	\$ (1,208)		2,971	· \$ 1.875	4*1
Adjustments to recept the net income for that each	l " "	1.3			, ,
provided by operating assisting	i				133
Answellandors and depressions	5,117		4.315	0.534	ex.
FORTITATION and main of train balable appropriate			1.430	3,3	+ 1/i
According of investowants in marketable securities	(284)	10	(316)	1 to	
(Catn) less on dispusal of pures	53	14 34	- T	(40)	
Lim on disposal of discontinual districts		house	,	2,032	
Provision for estimated losses on pulltracta	-		B'	(196) 25	3. 1.
Promises by southful expusits	(547)		(U12)	(2,500)	
Deferred byvene tag benefit.	1 (27/)		. miri	36,500	41.1.
Accounts receivable	2,557		(2.492)	(970)	
Lightled revenue	169		(39)	(190)	
Prepairts and citing	(38)	III M	(286)	(202)	2.
Accounts payable	(29)		246	230	
Account liabilities	(433)	100	∌ 150	1,337	
Delarred construct reviews	(1,043)	1, 30. 12	(705)	303	
Decrees to current assets and liebilities from allegant freed completions	<b>)</b> –	Fig. 3.	200	250 (2010)	
Wife Bills. Not such provided by operating entireting and all the second	4.262		4.369	5.380	
Cont there from investory sellented to the confidence of the confi	3				
Acquisition of property and equipment [15,55] [15,55]	(1'8et)	100	(2.005)	(5,646)	
Process from sale of the wants	1	10.530		603	
Amelians of Investments to undestable securities	(14.559)		14,446)	ii.	可能健
Sole Of transcribito to tentaperaged behanfelde	11.500	E Sail	4,947	<u>'यू</u>	
Sull upon stevall-princip contact	(497) (6 6 1 T)		re. (397)	112)	أ والأسم
Net costs prost in investing activities	<b>3</b> (5.517)		[15'901]	12.183	. A. Cig
Cosh flayes from Hauncing activities.	1	100	· •	4.275	5.4
Proceeds from tamente of pates payable	<b>3</b> _	***	(4,986)	(),439)	
Principal payment on motes payable Principal payments on capital losse obligations	(1.870)		(5,038)	(3.630)	en la co
Procurate from soutpotent firewriting	581		· ************	*** for execut	
Energies of stone contents	461	1.2	. 39	71	ï
Stock subscription payments received	20	1 1 1 2 2	40	하네 - 🖺	
Punctumes the cough rengions work partisms plan	145	TAME !	243	g0: - <u>-</u>	
Proceeds from tained public attenting and overallegineing	1			평균 원합	
The second statement of the second statement of the second	5 -	<b>.</b>	26,051	7 3 . <del>7</del> .	
Long return to lettel to be effective	: —	£	(964)	Same and the	
Not costs provided by board in finnectus assisting distribution	(657)	Luis	15,285	(724)	- 44 A
Net frammer (electronic) his casts must conto equitoritists	(1,912)	<b>₽</b>	7,763	2,471	
Capte mill costs read-admiss, beginning of perfect and a second second second second	10,266	Land	2,503	37	*** * * * * * * * * * * * * * * * * *
To Cash and costs agretyments, and of partied to the second section of the second	\$ 8,354	L	110.206	\$ 2.003.	
Supplemental disclusion of each flow inforpation:	1	1 3			
Costs well starting the protect for interest	i\$ 439	L		S 912	
Cash until during the praired for taxon	18 458	<u> </u>	I 95_		e de unit
Supplemental relicities of monerals fluoring and impulse statelities:	j	Į .	. 244	746	
Divisional secured on Series D. E and F Convertible Preferred Stock	a•	1	355	1740	
Continues stork laying to amplipers in exchange	l: -		۱		
- Paramanan punk mengencial To punktur Tenengenengan and Section Section Consumer of the Con	3 6 840				

The segampunying Notes to Financial Statements are an imageal part of these statements?

Convertibility of proceeds and a superior of the superior of t

Efficient of resemy much as a final familiar for a final fin

Statements of Cost flows forms in them and a real property and the statement of the stateme

Year Ended December 3k.

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#### Notes to Financial Statements

(1) Organization, Business and Liquidity SCC Communications Corp. (the "Company") is a Delaware corporators. The Company is the femiling provider of 9-1-1 Operations support systems services to incrusional local exchange capters ("ILECx"), competitive local suchange carriers ("CLECs"), whelea carriers and state and local governments to the United States. The Curryany manages the state which combins 9-1-1 calls to be funted to the appropriate public selety agency with accurate and timely traformation about the caller's identification and forestion. In addition, the Congany towners to 9-1-1 sufrage so current that with to studings the delivery of 9-1-1 days Alexanderic services in huma.

#### (2) Summary of Significant Accounting Policies Operating Cycle

Assets and Malatities related to contracts are sucheded in curren assets and Habilities in the accompanying behave sheets since they will be ilquidated in the number course of contract Completion, withough this may require more than one year.

## Property and Equipment

Department of property and equipment is computed using the strately like theriand over extinuted useful lives of three to five years for companies hardware and equipment, seven years for furniture and limmes and the tile of the lease for leasthold Improvements. The costs of repairs and maintenance are expressed while enhancements to existing assets are capitalized. Department expense totaled approximately \$4,888,000. \$4,174,000 mat \$3,399,000 for the years maked December 31, 1999, 1998 and 1997, respectively.

#### Sufeware Development Conta

The Company expenses the case of developing computer statement would reclaim found the application in established and - contraines all costs incurred from that thee must the software in evallable for general customer release. Technological feasibility For the Company's computer software products is based upon the called of the achievement of (a) a detailed program design free of high this development issues or (b) completion of a working model. Costs of major entirecements to existing products with a wide market are capitalized while receive maintenance of existing products is charged to expense as busined. The establishment of technological feasibility and the ongoing assessment of the secoverability of capitalized conquises bultware development costs requires considerable judgment by management with reserving to certain external factors, including, but the finited to, technological feasibility, anticipated future gross revenue, estimated exequinte life and changes in administra and hadwar reclambers.

Capitalized software costs are amortized on a product-byproduct basis. The annual amountention is the greater of the amount computed using (a) the ratio that current gross revenue for a product compares to the total of extrent and auticipated forme gross revenue for that product, or (b) the straight line nation over the remaining estimated economic life of the special which is typically live years. Amortization expense ichited to capitalized software costs totaled approximately \$229,000, \$145,000 and \$107,000 for the years cricked Describer 31, 1999, 1998 and 1997, respectively, and is had added in cost of data reseasonable scryices and likeness and higheneniality; services to the statements of operations

#### Revenue Recognition

The Company reports revenue based on its two segments, data management pervices and licenses and implementation stryicas

**10**6 %

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Revenue from data management services generally consists of a new recurring fee and monthly recurring revenue. Revenue included in data management services generally includes a nonrecurring fee for the design and implementation of the 9-1-1 OSS, conversion of the continues data to the Company's systems, hiring and graining of personnel, well other costs required to prepare for the protessing of customer data. Nonprompting feet are recognised on the percentage-of-completion method over the period required to perform the tasks receivery to prepare for the processing of customer data. The Company's contracts also reparately allow for a mountably service fee based on the number of subscriber records under management, which is recognized in the period to which the services are rendered. Data management services revenue also mor include revenue from mitagical products and project, which may facility nonrecurring and/or mountly fees which are reparately stated to the constact and are recognised by the period in which the services ne performad.

Revenue related to software license fees and insulementation of the Common's 9-1-1 systems it container they is recognized using the percentage of completion method because the Company's software requires significant munification for each customer. Such contracts include a license fee for the use of the Company's suftware and service fees for the installation and COMPANIES OF the System. The Company's costs to Install his systems include disect labor, third-party license fees and miscellaneous expenses. Such cours are included in cost of licenses and implementation services.

he applying the percentage of sumpletion method, revenue and printed costs are recognised based on the percentage that falair hours becarred to date compared to total estimated falor hours. Revenue recognited to excess of amounts triffed is reflected as numers to assume oil institut common tous success to distribute prougated are reflected as deferred contract poverior in the accompanying balance sheets. The Company recognition any known or matchesical loss on Contracts in structus when such knacz we determined to exist.

Reverses from because and implementation services includes customer support sevenue which is recognized ratably over the related contract period on a straight-line basis. Coats related to conjusted without reverse are harboled to care of therein. and implementation services in the accompanying statements Of Discontinues

#### Concentration of Credit Risk

Finalectal instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, as mants receivable and investments to high grade treasury bonds and commercial paper. The Company maintains its easis believes in the form of book demand deposits, money mucher accounts, treasury bunds and Commercial paper with original manufaks less than nivery days. The Company's deposits and investments are with flourched Institutions that management believes are mediamorthy and investments are high grade. The Company's accounts receivable me hora customers that are gracially relevantionalities. service providers; accordingly, the Company's accounts

71

receivable are conscioused to the telecommunications inclusive. The Company's principal customers (Note 10) accounted for 71% and 30% of the Company's accounts receivable as of Desimber 31, 1999 and 1998, respectively. The Company has no significant financial instruments with off-balance sheer risk of accounting loss, such as foreign exchange continents, opioist contracts or other fuergin currency hedging arenigments.

## Research and Development

Research and development efforts constat of salaries, supplies and other related costs. These costs are expensed as incurred and totaled approximately \$1,740,000,\$1,376,000 and \$738,000 for the years striked December 31, 1999, 1998 and 1997, respectively. These costs are included to cost of data management services and ticenses and implementation services in the accompanying statements of operations and the not tocknote development costs incurred as part of the efforts performed mader licenses and implementations sorvices contracts with the Company's customers.

#### Cash and Cash Equivalents

For purposes of separting cash flows, cash and cash equivalents include highly liquid investments with original metaricies of 90 days or less.

#### Use of Enterprise

The preparation of financial statements in confurmity with generally accepted accounting principles requires management to nake entireless and southplates. These authorises additional properties are added to reported accounts of anets and illustrates, this knows of countingent meets and illustrates and the date of the finequial statements, and the traperted assumption of revenue and appeared during the reporting period. Actual results could differ from

## Fair Market Value of Financial Instruments

Financial linerrospesses include coals upol coals equivalents, conjuncte chell tocurities, accounts specifyable and debt colliquities. The carrying annumbs har cash and each equivalence and accounts receivable approximate fair market value temans of the about manuality of these functions. The fair value of moses are existenced based on contrast passes are distincted based on contrast passes are distincted based on contrast, and a Documber 31, 1999 and 1996, approximates the carrying value.

## Investmente la Marketable Securities

The Company's investments in corporate debt securities are classified as held-to-maturity and are carried at the amortized can bash. The investments had the following volum at December 34, 1999 and 1998, expectively:

#### Income Taxe

The Company follows Scansment of Financial Accounting Sandards No. 109 (198A), which requires recognition of defected income just need and liabilities for the expected future factories tax consequences, based on created tax lows, of temporary differences between the financial reporting and for temporary differences between the financial reporting and for temporary differences herewest first financial reporting and for engineers and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of loss early-lowwest-hand accretical receivables. Deferred tax assets are their sectioned, if decrined increasily, by a valuation allowance for the animant of any tax benefits which, on a more likely than too facilities for one against to be realized (Mote 6).

#### Stock Based Conspensation Plans

The Company applies APB Option No. 25, "Accounting for State Issued to Employees," (APB Option No. 25") in accounting for its stock option and other stock based compensation plans for employees and directors. The Company has adopted the dischance provision of Satement of Financial Accounting Soundards No. 123 ("SFAS 123"), "Accounting for Stock-Board Compensation," for such options and stock-based plans for employees and directors (Note 4).

	44	-	•	
	-	Unrealized og Gains	Gross Unrealize Holding Losses	
	- 2			
	7		Gross Unrealiz Folting Losses	
Jeorzized/ Accreted Cost	Zate	Gross Unreali Holding Gains		
-		-	~ -	
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<b>i</b> U		E O		•
daortízed/ Accreted (	4007	670## Holds	மாட	3

والمالية والمخطوطية وبالكوال ومؤذنك كيماهم والماليات والمساومة والمالية والمالية والمالية والمالية والمالية وا	Applied to the second	and California Service Str. No.	ng mga ini thum, nangg	graphs: 1 tre	Hamilton - Lines
Corporate Debi Securidas, particing within one year	\$ 7,701,000	\$(237,000)	. \$10.000 .	\$(2.000)	\$7,535,000
Corporate Delta Securates, matering					
plus oue year dunings flye years	2,054,000	(33.000)	7 ()()()	, , , , , , , , , , , , , , , , , , , ,	2,024,000
Balancer of December 31, 1998	\$ . P.B15.004	\$ (270.000)	\$16,000	1 (2,000)	\$ 9,559,000
Corporate Debt Securities, making within one year	\$ 12,105,000	\$ **	<b>s</b> —	\$ (10.660)	\$ 12,155,000
Corporate Deta Securities, maturing					
situl bea hear thebugh five years	993,000			(2.000)	991,000
Balance of Dorambo 31, 1999	£13,158,000	STIL	S. Luckers	\$ (12,000)	\$13.146.060

## Impairment of Long-Lived Assets

The Company reviews to long freed assets for impatement whenever events or changes in exemptions as the free continues inclinate that the carrying attention of an asset may not be recoverable from butting unable counted cash flows. Impatement losses are recorded for the excess, if only, of the carrying value over the full value of the long-lived sealer.

#### Earnings Per Share

The Company presents basic and diluted partitings or has per start in accordance with Statement of Fatancial Accounting Standards No. 128 "Earnings Per State" ("SFAS 128"), which exabilishes standards for composing and presenting back and diluted earnings per states. Under this statement, back income (loss) per share to desermined by dividing net incume (loss) available to constroin sheerbackers by the weighted secongs available to constroin sheer constanting during each period. Diluted income (loss) per share includes the effects of potentially lossable computes stack, but only if dilution (i.e., a loss per share is sever reduced). The anamys stock method, using the average price of the Company's countries stock for the period, is applied to determine dilutions from options and warrants. The of convected method is used for convertible securities. Potentially dilutive constants stock aptions that were excluded from the calculation of diluted securities are because their effect is auxiditative toxalect 1,085,747,51,000 and 298,017 to 1999, 1998 and 1997, expectively.

Year Ended December 31.

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A reconciliation of the numerators and denominators used in computing per thace not income from continuing operations is as follows:

was the same of th	ngo <del>g</del> o	a. p. alimani.	-san E	ુત <sub>ા</sub> કુવવવ <sub>ક</sub> ુવ	parang.	<u> </u>	364 AIR - \$	777.	and the second
Numerous;	w. Fy		,	4 - 4 - 4 - 4	÷				
Net income (loss) from continuing operation		L.	ì		1	2.1		(4) (3) <del>(4)</del>	1941). 1941).
patura extraordinary (this framerator for	ditrind t		n)j	\$(1.062.000)	ابارشيا	3,480,000	3	4,763.999	ė.
Dividends on Convertible Preferred Stack						(355,000)		(740,000)	
Continue stack waters put price edjustmen	4 2 25	and the first of the second se	د ار ۱۹ مارا			(77,000)	ران المانية	(8,000)	1 6
Numerator for basic tucome (toes) per a constinuing operations before extraore			م دود د سعود	\$ (LA62,000)	100 m	3.448,000		4,935.D00	1
Descentinator for basic incume (loss) per share		3.7	· , :1		177.15	7.1	1.353		براهائي ا
Weighted average countries shares outstan	ding	م الله الله الله الله الله الله الله الل		19,000,001	L	6.433,564	المصادبة	1.057.413	3
Denominator for diluted liganos flood per sha	w:	**************************************	1	n the second	3	'e .7	e	1 1	2 20
Conversible Preferred Stock	5				17	3.051,900	1 14	8,188,575	24.7
Weighted average customers shares putstandly	Page (F)		. 115	10.989,091	157	6,433.564		1,857.413	
Options found to muphysis				,	Ban.	. 752,863	100	720,605	
Potable conjugue stock mercant	- 12 f					96,229		22,223	
Denominator for stilling treener (104)	POR BÔN	<b>T</b>	د ۱۰ پر انجاز مینان	10.943.091	التعفا	0.734.556	المداريي	1.784.#L£	
					K4 . 10	1.0	3000		. 8 .

Incurre (kess) per common share was computed as follows:

Baste tricume (loss) per thurs:	77	1	e en	7	anti anti anti alia	Charles Miner A. to be ber	, m) may
lucone (los) per shee from continuing operations below extraordinary train			(0.10)	Σ	\$ 0.53	\$ 2.1	7
Loss per share from discontinued operations		3	(0.02)		<b>—</b>	(1.5	6) '
Lass per stone from extraordinary tem		1			(0.14)	1324	<del>,</del>
Reste income (loss) per stage		ar heil <b>l</b>	(0.12)		_\$ 0,39 .:_	5 9.6	ı.
Dilmed tiscome (too) per stone:					,	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	
loconic (loss) per share from continuing operations		) . <b>1</b>	(0.10)		\$ 0.38	\$ Q.5	4
Loss per share from discommand operations		ž	(0 02)		-	(0.3	3)
Loss per abuse from extraordisary item		1	_	,	(0.09)		<u>.</u> ٠
Diluted income (ton) per share			(0.12)		\$ 0.29	\$ 9,2	1
•				L t			

er annerste

#### Recently Issued Accounting Pronouncementa Seasonesi of Finnerial Accounting Standards No. 133 and No. 137

In hore 1998, the Financial Accounting Standards Board ("FASB") Issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), SFAS No. 133 establishes. accounting and sebusting standards by delivative (house) of hatraneuts and hedging activities etland to those harraneuts as well as salper besigning activities. It requires an entity to processive all derivatives as either assets or Habilities in the managers of floweried position and operators these less represent at fair value, he have 1999, the FASB paper Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Sentement No. 133" ("SFAS No. 137"). SFAS No. 137 delays the effective time of SFAS No. 133 to florate of quarters and flowerist years brightness after later 15, 2000. The Consessor does not remeable enter into arratherments that would fall under the scope of Statemers No. 133 and then. management believes that Statement No. 133 will not simplicantly affect as financial condition and results of correspond

#### Visconian of Parking 98-9

In December 1998, the American Institute of Cartified Public Accountains based Suscensent of Position 88-9 ("NOP 98-9). "Modification of SOP 91-2, Software Revenue Recognition, Wath Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Suscensent of Position 97-2 ("SOP 98-2"). "Software Revenue Recognition," to require the applications of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also assends Statement of Pusition 98-4 ("SOP 98-4"). "Defected of this Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of software specially provided by SOP 98-4 through that years beginning on of before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in float pears beginning that March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in float pears beginning after March 15, 1999. Extern adoption to permitted, tomorous.

personative application is probabiled. The Company betteves SOP 98-9 will not majorially transcript in fluencial statements.

#### Scall Accounting Butterin No. 101

In December 1999, the Sciunties and Exchange Commission staff released Soff Accounting Bulletin No. 101. "Revenue Recognition" ("SAB 101"). SAB 101 possibles interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements on SAB 101 must be applied to financial statements to discrete that the second float quarter of 2000. The Company is currently reviewing SAB 101 to detectable what indicates the same statement of SAB 101 will hower on its financial tousilion; and results of operations.

#### CB Discontinued Operations

On June 30, 1997, the Company sold the rect assets of its Premise Products Division. The sale resoluted in a net has all \$2,032,000. The rat losses of thish division are instability in statements of operations as loss from operations of discontinued division. Revenue from the division for the da manifest ended division. Revenue from the division for the da manifest ended faire 30, 1997 was \$5,185,000. Net shows from operations of this division totaled \$226,000 and \$876,000 in 1999 and 1997, respectively, and are presented to the Company's financial nateriments as loss from operations of this outlined division. The fina from discontinued operations in 1999 resolved from final clossoot of unsubgood contracts and the transition of customers to the company that equality this division.

#### (4) Stockholders' Equity (Deficit) Common Stock and Preferred Stock

Committee Stock and Freedom to Stock to Brectors authorized an increase to common stock to 30,000,000 shares and authorized 15,000,000 shares of undrugnated petersed stock. In 1998 the Company also retired 36,250 shares of creasury stock.

Mandaturily Redocumble Convertible Preferred Stock in convertion with the Company's initial public offering in June 1998, the Company's mandaturily redocumble convertible preferred stock was converted on a one for one bash to common stock. Activity for 1997, 1998 and 1999 is as follows:

BALANCES, at Theranther 31, 1996 port of the first state of the first

The activity related to the liquidation or redemption value of Series A through Series F Conventible Preferred Stock for the periods ended December 31, 1997, 1998 and 1999 to as follows:

	بمائد الأحاف بالريب	لفيالي المسائدة	Donald Rolling	e_d_e_n	1 Q J	we come to Same
		mn T	hill hill	i ivin	mit	inn
BALANCES. at December 31, 1996	• 1 Kala (988)	1,000,000	30,000 \$ 2,242,0	00 \$3,044,000	95 333 000	\$13 HAQ (200
Dividends according on Series D. E.						
Preterrad Stock BALANCES, at Describer 34,1897		1.000.000	30,000 2311.0		5,733,000	11.44
Dividende scrued e Same D. E. sent F Convertible Pady Such			7 62.	101,000	192,000	355,000
Conversion of Serie  A-F Conversible Protected Stock						
BALANCES, as Decruder 31, 1998 and 1998	1 (1.500.000)	(1.040.000)	(34,600) 3. (2.433.(	001 2 (3.356,000)	12,923,000	[ [14.314.000]
THE RESERVE AND DESCRIPTIONS	ergerjaktis (j.	The Hills	1165 (4)3/F174	ere au e	THE STORY	10000

Until the meandativity resecueshie enquerithis performed stock use converted, dividends of \$5% per your very meaned that would be due upon liquidation or redempitors.

## Putable Common Stock Warrant

in November 1997, the Company burrowed \$4,000,000 from Banc One Capital Parines II. LLC (fits "Lander") (Note \$1, in connection with the loan, the Lender received a warrant to purchase 195,148 shares of the Company's common stock for \$100. In June 1938, the Lender exerched this warrant. Because of the part forame of the warrant, the Company recorded an animant equal to the manufact of shares under the warrant though the interference between the current market value, as defined, and the matter value of the shares at the time the warrant was based. This amount was treated as an increase in the value of the shares at the time the warrant was based. This amount was received as an increase in the value of the shares at the time that got to a companying thought statements through the time that the warrant was exercised. The amount recorded was \$77,000 and \$80,000 in 1988 and 1997, respectively.

## Stuck Subscriptions Receivable

In September 1997, in connection with the sale of the Company's Prender Products Division, several former employees of the Company signed full recourse promising mouses to the Company to exercise their search stock options. The motes across torties to treat a 6.07% per around. The Company extended the due date on the nates to March 20, 1999 and is pursuing collection of the note that remains sumple.

#### Stock Option Plan

The Company adopted the 1998 Stock Incentive Plan (1998 Plan) effective June 23, 1998, which is a sourcesor to the Company's 1990 Option Plan. As of December 31, 1999, a food of 3.297-047 shares have been auditorized for Issuance urnler the 1998 Plan, including shares authorized under the 1990 Option Plan. The shares reserved for issuance with increase authorized by on the first senting day of each cateriate year, beginning with the 1999 calerator year, by 3% of the number of shares of continion stock nuiscentatory on the fact trailing day of the inumediately perceding calerator year. The share concern was increased by 226,590 shares under this purefacion to 1999. The 1998 Plan allows for issuances of options to officers, numerique, that of members and outstants, as provided for under the terms of the 1998 Plan.

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#### Employee Stock Purchase Plan

On March 18, 1938, tia: Conquery adopted an employee stock paretime plan ("LSP") under which eligible engiloyees may continue up to 10% of their salates through payroll deductions to muchase shares of the Community common stock. The first offering period of the ESPP began March 1, 1998 and entire on December 31, 1998 Theresher, othering periods will be successive six meanin periods. At the end of each offering period, amounts contributed by employees will be used to positione shares of the Company's common stock at a price equal to 85% of the lower of the cleaning price of the common stock on the first they or last day of the offering period. The Company's Board of Directors has milliorized the bissame of up to 200,000 shares under the ESPP and may terminate the ESPP at any time. At March Lof each year, the states available mader the ESPP will be restained in 200 000, although the Company's Board of Directors may clost to restract a lesser marriage of shares. The Company bound 38,079 and 61,105 shares under the ESPP to 1999 and 1998, respectively.

## Statement of Financial Accounting Standards No. 123 ("SFAS 123")

SFAS 123. "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employer stock opsions or similar equity instruments. However, SFAS 123 allows the Continued measurement of compensation cost for such plans using the furtrait value based method precisional No. 25, provided that part oftens discovers are made of ser income or has assuming the fair value based mechanical SFAS 123 had been applied. The Company has stee set to account fur its stock-based compensation plans under APB 25; accordingly, for purposes of the pro-formed discourse generated below, the Company has compared the fair value of all uptions granted under the 1998 Pass, which successed the 1990 Option Plan, during 1999, 1998 and 1997, using the Black Schuler pricing medical and the following weighted

	1777	3776	1777
		12.5	
Risk from insuring paint from Expected dividigately yield	DIME.	0.00%	D MISS
Paparion lives outstanding . A	H works 1	4.4 years	5 th years
Experied solutions 1	14112	g ports	01012

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fieldly reside. All options are fieldly lessed. All options are fieldly lessed to the constant of the compensation coast acception to product a method of the production of the contract of the production of production of the contract compensation expense to the period of forfeiture. Because the Company's consumant stock was not yet quible by tracked, the expected market which they was assumed to the zero in 1997. In 1998, the Company's consumant stock was not stock was not pet finded for an extended period of time, thus the expected market volatility was based on the continuous assumed to the action of the sero in the continuous assumed to the action of the sero in the continuous assumed to the continuous assumed to the continuous account of time. Thus the expected market volatility was based on the site is prices of companies whose operations are standar to the Consumption.

Actual volatility of the Company's communitation may vary. Fair value computations are highly sensitive to the volatility factor assumed, the greater the volatility, the higher the computed fair value of outlines strated.

The total fair value of options grasted under the 1998 Option Plan and the ESPP was compared to be approximately \$2.650,000, \$1,406,000 and \$499,000 for the years coded December 31, 1999, 1998 and 1997, respectively. These amounts are amortized causily over the vesting periods of the options or recognized a dute of grant 8 to a vesting period is required. For forms and 6-based comparisation, set of the effect of furfeitiers, was \$495,000, \$417,000 and \$232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	<b>♦</b> 777	1370	111(
			1411
Chassoning at beginning of year	1.339.880 \$ 3.62	1.106.010 3 3.03	1.071.908 \$ 1.68
Counted Counted	740,364 \$ 15 (179,079) 2.56	370 2115 5.810 (04.494) 0.54	2/0.016 0.93 (153,382) 1.00
Constitution at mad of year and Walgited a springs that	(245,301) 5.43 1.655,864 5.43	17.147) and 1804	1106.610 2.103
trains of mateur seminal	3 3 3 3	\$ 3.18	المستعدية المستعددة

The following table summarizes information about the options outstanding at December 31, 1999:

	Barrelle in the state of the st	Hena Eaursiaahlu
	in interes and the second as the	intan
The second se	Southern Street Con Street	
\$0.12 - J.30 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		184,509 \$ .18
\$0.76 - 3.00 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	164,500 1.19 years \$ .18 g	344,410 1.94
17. 19.63 - \$ 13. 20.53	679.103 9.13 years 4.39	90,292 4.09
\$6.00 - 7.50 Sec. 1	425.351 B 13 years 6 59	80,344 7.42
[6] [6] [6] [6] [6] [9] [9] [6] [4] [1275 [6] [6] [6] [6] [6] [6] [6] [6] [6] [6]	32.684 8.30 years 11.93 x2	10.078
A transfer on the little of the section	1.055.864	101.611 1.2.62

If the Company had accumited for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from constraining operations would have been repursed as follows:

· 18. 1444 刘表示"我们的"我们的"就是我们的"我们的"的"我们的"的"我们的"的"我们的"的"我们的"的"我们的"的"我们的"的"我们们"的"我们们"的	¥777	1998 1997	P 11277 P
Net income (lona) from constrating presentions			( )
tention unterpretingly items: As reported	\$ (1,062,000)	\$3.880,000 \$4.783.0	, ,
Pro forms	\$ (1,373,000)	\$3,619,000 \$ \$4.634,0	
Beaut port tractions (light) par others at non-templationing appropriate before entranediting them.			
As reported	\$ (0.10)	1 4 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1627 (*) 1 <b>7</b>
Pro furna	\$ (0.12)	5 0.50 5 2	09
Diluted on tocorus (kes) per stars from continuing.	173.1 1 \$10	化生物 高电影 计图像图象	
As reported	\$ (0.10)	[62] Application of the Computation of the Principle of the Computation of the Computa	<b>34</b> /
Service of the Profession of the Control of the Con	\$ (0.12)		.33 j

(5) Loug-term debt At December 31, 1999 and 1998, long-term slobt consisted of the following:	) eces	ber 31,
Copitalized fewer daligations for problems in the on wearus states through December 1, 2002, minimum mounthly payments to restying assessing comments upstrabulately \$189,000 (returning imposed futures ranging from 7.75% as \$50% per assisting captures, calorestiand by the related assess with a year book value of \$1,830,000 and \$4,273,000, respectively.  Less to Coursest martier.	\$ 4,009,000 \$ 4,009,000 (1,971,000) \$ 2,038,000	\$ 4,400,000 1.618,000 2.82,791,000

The Company prepaid its \$4,000,000 more payable to Banc One Capital Partners II, LLC on June 30, 1998 and secured a prepayment prentum equal to 4% of the amount, totaling \$10,000 in addition, the Company worder will the remaining their discount related to the more payable of \$1,282,000. The prepayment penalty and write-off of the delation outer totaling \$1,442,000 were recorded as an entraordinary tiens, net of the related browne has therefit of \$513,000.

Debt maturities of long-term debt as of December 31, 1999, see as follows:

in i	14.5.54.32.		غم زمدکس		المسيئة المست	
2000	100		4.75	···		2,250,000
3001		100	1.1			1,633,000
7012			اعداه مصاأت		تتسمسأن	
200		1.33	· / },			1,120,00
	Augunga					(111,000
արդանում։	ને ભિત્ર પંલ્યા	ભી મહાત	n coloditions	11.013	1 4 1 1 1	4,009,00
					. 110	
1 0.50 277	- WEELE	кицую		- Allendary of I		071,000
						LUGHLOO
-					المسم	##AR*AX

(6) Income Taxes

The Company has operated in three countries, the United Sistes, Caruda and Australia. For income an return reporting purposes, the Company has approximately \$11,200,000 of net operating loss carryforwards and approximately \$723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax itsolities in the United States. The research and development credit and set operating loss carryforwards expire as various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may faint the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain recents including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period creads in an annual limitation on the Company's shiftly to utilize its net operating loss carrytos waith from par periods prior to the ownership obange.

Section!

			. 3999	1970	CALL LA CALL THE PERSON METHODS
and the second					
Arened liabilists a			640,000	\$ - 852,000	
Delected (Tyrania			70,000	200,000	
New operating tops of	curytuwecle	<b>建设设施设施设施</b>	657 600h	1,179,000	4 4 4 <b>1</b> -
Lass z Vasietion ali	ken norm a statut de la salada de la calada d	Berne Gerich en bei ber	(57,000)	Lu. 1206.000	
	المفاضة ومساح فالمسادر فالمساورة	الاندسان يتنشف يعالمه بريون	853,000	1.7F 5.0525.000 (	
The Property of the	23日本社会 特斯特拉克特的	及""强"的"特别"。			
Depreciation dillare		<b>成分常化性的特性性</b>	(1,057.000) 4,150,000	(901,000) 1,074,000	
Net operating loss of		的数字数 "我们是它的。	123,000	675,000	<b>"国际"</b>
In credit carrylane			(303,000)	(211,000)	(b) (1) (1)
	onedych theirtheil de liethe th			L 1.501.000	
19 ( 25 ) ( 19 )	SECRET STATE OF SERVICE TO THE	CONTROL GRANT TRIBLE		47. <b>3.</b> 529.000 ±	
The American State of the Control of	Photor or the late of the city	THE ESTAL AND DESCRIPTION		E	وروانية ومعافية وتبارية

December 31:

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

The Company recorded an income tax hencits of \$568,000 in 1999 so it believes that it is store likely than not that the net operating bias generated will be utilized against future sensings. At of December 31, 1998, the Company revenue \$1,689,000 of the valuation altowards on part of its deferred tax meets, as the Company between it is more likely than rur that such can benefit will be realized. Approximately \$133,000 of the transmets haven't in a benefit in 1998 was ablocated to the nationalizary too on only entitivation and deta.

Management believes the remaining tax assets of \$450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criterie set forth in SFAS No. 103 and tax recorded a subsection allowance for such net tax assets.

manunachtera bener m karen ch. 1927/9 menner in volumbar menner de demonstration in de description de descripti	1999	* * * * * 3 1	व्यक्तास्य । व्यक्तास्य व्यक्तास्य
The companions of the besefts for second cases earlies and so income the	en operations a	of December 31, 1909, 1906 and	
Coursest provision - seate Deferred benefit, federal and sease Lococon for benefit	(468,000) \$ (468,000)	(912,000) 12,500,000) \$ (912,000) \$ (2,324,000)	
The companients of the provision (benefit) for income earn estributely to	a hiscomie filosopi d	Uscopulation uperations as of	
December 31, 1989, 1998 and 1897, were an follows:	\$ —	\$ 100,000	
Cheformal bound M. Redecal  A reconcillation of Income sex benefit spenguized by applying the federal in	Maria de la Company		
A prospecification of treatments were no of Described 11, 1999, 1998 and 1997.  Computed purpose income supplies of Described 11, 1999, 1998 and 1997.  Computed purpose sea (benealt) provided.	te se fullyws: \$ (631,000)	\$ 700,000 \$ 835,000	
Tax effect of personners states now send enter- Seaty was mor of festeral fax tousures	(61.000)	9,000 34,000 68,000 413,000 (1,689,000) 43,310,000	
Change to valuation allowance attributable in construints construints and relative	\$ (5GU,000)	\$ (812,000) \$ (2,328,000)	
The formers for lossome some is attributable to continuing operations and is as follows:			
Provinces (begetif) striturable to continuing operations  Charge in galunting alternates striturable to continuing aggressions  New baselit attributable to continuing operations	\$(468,000)  (468,000)	\$ 777,000 \$ 982,000 \$ (1.689,000) (3.310,000) \$ (912,000) (2.328,000)	
Change by valuation showship to discontinued operations  Change by valuation showship adultifulation to discontinued operations	(100,000)	(707,000) 897,000	
Nat providing attributable to storogithmed megrations	(100,000) \$ (568,000)	\$ (012.000) \$ (2.228.000)	

#### (7) Connitment

The Company leaves its office and research facilities and certain equipment under operating leave agreements which expire through November 2003. Rest expense for the years cuded December 31, 1999, 1998 and 1997 was approximately \$1,370,000, \$1,030,000 and \$718,000, respectively. Future indutumn leave obligations under those appreciations are as follows:

2000	e jakoet sa	September	1.42- <b>19</b> 243	्युक्त	\$1,580,000
2001	a. The		14		1,553,000
2002	31.55		- 8		1.\$52,000
2003				and ex	36,000
Total	1	43.1	12	e grader	\$4,721,000

## (8) Employee Benefit Plon

The Company has a 401 (b) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions and piproved by the Board of Directors. For 1998 and 1997, so employer marching or discretionary count fluctuous were made to the 401 (a) plan-However, in February 1999, the Company's Board of Directors approved a marching contribution for employees, which was effective April 1, 1999. The Company marches 50% of employee contributions up to 6% of the employees solary, not to exceed \$1,1000 in 1999 and 2000, espectively. Man hing contributions will see 15%, 70% and 100% for one, two and there years of service, respectively.

## \* (9) Related Party Transaction

The Company provides data management and certain consulting services to and lease equipment from entities in which a stochholder of the Company has an ownership interest. A representative of the tention that derives a member of the Company sectived not proceeds of approximately 56 979 000, 56,735,000 and 56,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements not of automato the to the Company for services resident as of December 31, 1999 and 1998 were \$3,262,000 and \$3,962,000, asspectively. The leases have between rates ranging from 7.75% to 9.50%, require monthly payments and have exploitation dates varying through October 2002.

#### (10) Reportable Segments and Major Customers Reportable Segments

The Company has two reportable segments, data management services and literases and implementation services. The Company measures in reportable segments based on revenue for each segment and costs directly related to each segment. Central and administrative, sales and

murketing soid other coats are not measured by segment. Data management newtons include the provisioning of an outstanding solution for 9-1-1 data management to automore, tuchoding ILEGs, CLECs, wheleas carriers and state and local governments. Exercises and implementation newtons tuchode the licerating, contembration and installation of the Company's 9-1-1 software substitutes. Substitutely all of the Company's contourners are in the United States.

These arginents are managed separately because the nature of and reviances used for each segment is unique. Data management services behalve oughing data management und monitoring of systems and other enhanced services. Under data storagement services, the existence of the Company's systems and the Company owns the systems used to manage the data. Under the men and implementation services, the customer performs data management and systems under the data. The customer also downs the handware, licenses the Company's software and systems monitoring activities. The customer also down the handware, licenses the Company's software and such statement of software to the such as the statement systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reputable segments. The Company dues not segregate assets between the segments at it is linuaristical to 40-96.

## Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% to 1998 27%, 25% and 27% to 1998 and 30%, 29% and 22% to 1998 and 30%, 29% and 22% to 1997. Constructs with certain of three customers have a terry-year duration and provide for fixed mountally feel based quantities mainter of subscriber econtext moninged and upon the services to acted by the customer. All of three customers are to the Conquary's data management services segment.

#### (11) Legal Matters

The Community is subject to various claims and business disputes in the undisputy course of Institute. While the continues of these matters cannot be involved with certainty. management and thates that the oblinear concease of the laster wall stat have a material impact on the financial statements. Federal and state regulations governing 9-1-1 proving provintending have typically applied to local exchange parvices providers. The Common plans to provide 9-1-1 services directly to make and focal governments tather than local exchange carriers in certain meas. Since this is the first time that such services have been provided in this manuer, the regulations are being challenged and chalified for the litts time. The Company believes that the services it provides are within the score of the extense regulations and that any challeinges to the regulations will be decided in the Company's layer. However, if the regulations are challenged and are not decided to the Company's favor, the Company may be prohibited from expanding its services to certain markets.

## Report of Independent Public Accountants

To star Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance shares of SCC Communications Corp. (a Delawase corporation) as of December 31, 1999, and 1998, and the related solutions of operations, stockholders' equity (deficit) and each flows for each of the three years in the period ended December 31, 1999. These flows to this interaction are the operatibility of the Company's management. Our responsibility is to answers an operation on these funnited statements beared on see makes.

We constructed our markles in accordance with auditing standards generally accepted in the United States. Done standards require that we plan and perform the audit to colorie reasonable assurance about whether the floatest of statements are free of material solutations. An audit includes examining, on a test basis, evidence supporting the annuals and disclosures in the thousand statements. An audit includes examining, on a test basis, evidence supporting the annuals and disclosures in the thousand statements. An audit above basesting the accounting principles used as dispulsation statement study statement presentation. We believe the our multis provide a manualable basis for use opinions.

In our upinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1998 and 1998, and the results of its operations and its cash flows for each of the three years in the period existed December 31, 1999, in condominity with accounting principles generally accepted in the blutted States.

arthur anduna LLP

ARTHUR ANDERSEN LLP

Deuves, Colorado

January 21, 2000

## Market for the Registrant's Common Equity and Related Stockholder Matters

Our cummon stock to studed on the Naulog Nistional Market under the symbol "SCCX." We commenced our initial public offering of the cummon stock on June 24, 1956 at a price of \$12 per alone. Prior to such date, there was no public market for the cummon stock. The following table sets forth the high and loss that prices for the cummon stock for the periods indicated, as reputed on the Naulon Nistion.

	HIGH	LOVE THE THE PARTY OF THE PARTY
June 24, 1998 through June 30, 1998		
Quarter couled September 30, 1898	16.00	<b>李琳</b> 的表现在可以创始的影响,在2010年代的影響。[42]
Quarter auded December 41, 1998	5.56	<b>38</b> 医复数性性衰竭性 医二甲基甲基
Quarter engled March 31, 1909	6.38	3.00 한 교육들의 원 원 사람들이 가장 되는 사람
Querper ericled June 30, 1999	s (no. 3)	31.00 (秦原縣) [[[[[[[]]]]]] [[[]]] [[[]]] [[]] [[]]
Quarter endog September 30, 1000	7.13	
Quarter coded Decumber 31, 1999	7.00	500

## As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any east dividends on our capital stock stoke our locapiton, and do not expect to pay cash dividends on our common stock in the horsecolde future. Certain coverants contained in our fire of credit agreement market the payment of dividends without the leader's puter consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, addject to the restrictions discussed above, after taking futu account various factors, he bothing our flowed ad continuous operating results, cash meth and expansion plans.

# Curporate Information

George K. Heteriche President and Chief Executive Officer SCC Communications Corp.

Scaphen O. James Independent Emportee Business Consulers

David Kennield Manager

IK&B Mangorest L.L.C.

Mary Both Vitale
President and Culef Esquetive Officer
Warmingt Madia

Whaton J. Wide Former Chief Encasive Officer Mote Our Meleysia

Darrett A. Williams Chief Inventment Officer

Television was a known Description of Fund

Gourge K, Heinriche Prustiont and Ctiof Espesitive Officer

Carol L. Nelson Chief Finnersol Officer

Norwest Bank Managemen, N.A. Stramment Service, P.C. Box 94854 St. Rud. MN 55164-0854 Ter 800-468-8716, Fac 651-450-4033 Arthur Andrews LLP Donney, Columbia

Hale und Durr LLP Boscos, Masserbanets

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SCC Communications Corp. 6285 Lockern Rand Boukler, CO 80341-3343 Tet 303.581.5600 Fex 303.585.0904 Web: www.scc011.com

Le Busher I Geren

For further information on SCC, additional capies of this report of other mancial information filed with the Securities and Employer Corpodation, phase consists:

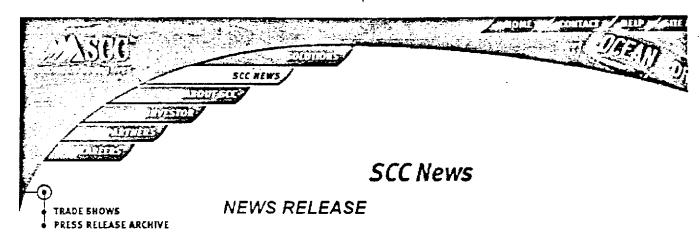
Investor Relations
SCC Communications Corp.
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Fax: 303.881 0000
Emilion officery comp.

SCC Communications Curp.'s equation stack trades on the Nation Stock Market under the syndrol SCCX.

#### Sant ande

- 1. National Emergency Number Association
- 2. SCC Communications Corp.
- 3 Strategis Group as quoted in 1999 Place Facts. United Soites Telecom Association
- 4. Cellular Telephone Institute Association
- 5. Cellular Telephone Institute Association
- 6. Strategls Group

GOID SCCC manners assess Corp. Ad rights reserved. Informact. Energina y Washing and Evaluation, EWE, ENPORED, B. 1 Contract, F. 1. SalmyNot, B. 1. Coperations. Support Systems. and F. 1. 1. COS are across sealed of SCC Communities from Corp. The SCC Support Systems.



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WINfirst Selects SCC Communications to Provide 9-1-1 Service to Customers

## FOR IMMEDIATE RELEASE

Boulder, Colo. (December 7, 2000)—SCC Communications (Nasdaq: SCCX), the world's leading provider of 9-1-1 data management services, announced today that WINfirst has selected SCC's TelConnectSM package to provide enhanced 9-1-1 (E9-1-1) service to WINfirst residential customers. The TelConnect system will allow WINfirst customers access to immediate and reliable 9-1-1 service.

Based in Denver, WINfirst is building an entirely new fiber-to-the-home (FTTH) residential network that will provide high bandwidth for voice, video and data applications. WINfirst has already received regulatory approval to build networks in Sacramento and San Diego, California; Austin, Dallas, Houston and San Antonio, Texas; and has received a temporary permit pending full approval in Portland, Oregon. Combined, WINfirst will provide its service to more than 3.2 million homes. WINfirst is pursuing regulatory approval in San Francisco, Oakland, California, Los Angeles, Seattle, Phoenix and Nevada.

WINfirst, which signed a three-year contract with SCC, will now benefit from the leading-edge TelConnect suite of 9-1-1 data management services. TelConnect enables integrated communications providers (ICPs) and competitive local exchange carriers (CLECs) to cost-effectively outsource the complex job of meeting 9-1-1 data management requirements.

"WINfirst is committed to providing its customers with the highest quality serviceand that includes 9-1-1 emergency service. This is an essential service and we wanted to work with the country's leading and most experienced provider of 9-1-1 data management services," said Frank Casazza, WINfirst president and chief operating officer. "We realize the critical importance of 9-1-1 service. It can be a matter of life and death-which is why we selected SCC to provide our customers with the most accurate and reliable access to 9-1-1 emergency service available."

"TelConnect will handle all of WINfirst's data validation and formatting, error analysis and resolution and delivery of the data to the appropriate public safety agencies," said Mark Scott, vice president and general manager of SCC's CLEC business unit. "And while our experts manage these time-consuming but critical tasks, WINfirst can focus on expanding its markets and services."

## **About SCC**

SCC Communications Corp. (Nasdaq: SCCX) is the leading provider of 9-1-1 data management services to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), integrated communications providers (ICPs) and wireless carriers in the United States. SCC manages the data that allows the routing and delivery of 9-1-1 calls to the appropriate answering point along with accurate information about the caller's location. SCC provides 9-1-1 services to 20 leading wireless telecommunications carriers and 38 leading wireline telecommunications carriers. SCC currently manages the records for approximately 99.4 million wireline and wireless telephone subscribers, including 4.8 million CLEC subscribers, and more than 2.5 million revenue-generating wireless subscribers. The company also develops innovative, value-added information technology systems and software products for the location-based services market. To receive SCC press releases and company updates via e-mail, please register at the company's Web site: http://www.scc911.com.

## **About WiNfirst**

WINfirst is building a new fiber-to-the-home residential network using fiber-optic technology in conjunction with Ethernet networking standards to break the last-mile bottleneck. WINfirst will provide the highest quality of customer service and choice, the convenience of one-stop shopping for Internet, cable TV and telephone service and the value of a bundled-service offering. For more information about WINfirst, visit http://www.winfirst.com.

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